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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

AMERICAN AIRLINES, INC.	§	
	§	
Plaintiff,	§	
	§	
vs.	§	CIVIL ACTION NO. 4-07-487-A
	§	
GOOGLE, INC.	§	
	§	
Defendants.	§	

APPENDIX IN SUPPORT OF DEFENDANT GOOGLE INC.'S
MOTION FOR SUMMARY JUDGMENT

Defendant Google Inc. ("Google") files this, its appendix in support of its motion for summary judgment.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on July 3, 2008, a copy of Defendant's Appendix was served on Plaintiff's attorneys of record as follows:

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Tab	Description	App. No
A	Declaration and Exhibits of Doris Joos	APP001-020
B	Declaration of David Baker	APP021-023
C	Email from Courtney Loyd to Peter Bui and Katie Badya dated May 2, 2007 at 4:44 p.m. re Negative keywords – Google campaign	APP024-025
D	Bid engine mail [AAG-TM 000420126]	APP026-027
E	FTC Business Review Letter dated June 27, 2002	APP028-031
F	Declaration of Rose Hagan	APP032-033
G	Excerpts from Expert Report of Daniel L. Jackson dated June 9, 2007	APP034-040
H	Expert Report of Kent D. Van Liere, Ph.D., dated May 22, 2008, with Exhibits D and E	APP041-066
I	Excerpts taken from the Deposition of Kent D. Van Liere, Ph.D., taken May 30, 2008	APP067-098
J	Exhibit 122 to the Deposition of Kent D. Van Liere, Ph.D., taken May 22, 2006	APP099-128
K	Declaration of Itamar Simonson, Ph.D.	APP129-183
L	2008-2009 Funjet Wholesale Fare Agreement	APP184-189
M	2007-2008 Travelocity Wholesale Fare Agreement	APP190-228
N	Cheaptickets Contract [AAG-00353250]	APP229-235
O	Excerpts from the Deposition of Christopher DeGroot taken June 18, 2008	APP236-239
P	Orbitz Supplier Link Agreement	APP240-275
Q	Email from Julie Woodside to William Alcorn dated April 8, 2008 re: Unauthorized Use of AA Trademarks	APP276-277
R	Excerpts of the American Airlines Complaint filed August 16, 2007	APP278-284
S	Granados, Grupta and Kaufmann article titled "Orbitz, Online Travel Agents and Market Structure Changes in the Presence of Technology-Driven Market Transparency"	APP285-311
T	Travelocity, 10-K filing for 2000	APP312-406
U	Sabre Holdings 10-K filing for 2000	APP407-467
V	ARC Addendum	APP468-473 UNDER SEAL
W	ARC Agreement	APP474-543 UNDER SEAL
X	Travelocity US Point of Sale Agency Agreement	APP544-550

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]

For the fiscal year ended December 31, 2000.

[_] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]

Commission file number 000-30634

TRAVELOCITY.COM INC.

(Exact name of registrant as specified in its charter)

Delaware	75-2855109
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

APP312

15100 Trinity Boulevard
Fort Worth, Texas   76155

(Address of principal executive offices)   (Zip Code)

Registrant's telephone number, including area code (817) 785-8000

Securities registered pursuant to Section 12(b) of the Act:

None.

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.001 per share

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates as of March 29, 2001 was approximately $209,902,892.92. As of March 29, 2001, 16,963,052 shares of the registrant's common stock and 33,000,000 shares of the registrant's Class A Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III, Items 10 through 13 of this Form 10-K incorporates by reference certain information from the Proxy Statement for the Annual Meeting of Stockholders to be held May 15, 2001.

<PAGE>

PART I

ITEM 1. BUSINESS

GENERAL

Travelocity.com Inc. ("Travelocity" or the "Company" or "we") is, after giving effect for the merger with Preview Travel, Inc. ("Preview Travel") on March 7, 2000 (the "Merger"), the largest online travel agency. Our combined Web sites had over 7.7 million unique visitors during the month of January 2001, based on data provided by Media Metrix. This made our Web sites the third most visited sites in the electronic commerce retail category, after eBay.com and Amazon.com. On a pro forma basis, visitors booked approximately $2.5 billion in travel services on our Web sites in 2000, making us one of the top ten travel agents in the United States in terms of travel services sold.

Through the Travelocity(R)(1) online travel Web sites, which are accessible free of charge through the Internet and online services, leisure and business travelers can compare prices, make travel reservations and obtain destination information. Our Web sites feature booking and purchase capability for airlines, car rental and hotel companies, cruise and vacation providers, and offer access to a database of information regarding specific destinations and other information of interest to travelers. Information contained on the Company's Web sites is not a part of this Annual Report on Form 10-K.

In addition to Travelocity's main Web site (www.travelocity.com), we operate Web sites tailored to customers in the United Kingdom (www.travelocity.co.uk), Canada (www.travelocity.ca) and Germany (www.travelocity.de). Travelocity is the exclusive provider of travel booking services for various America Online, Inc. ("AOL") services, including AOL, AOL.com, Netscape, CompuServe and Digital City, in the United States and Canada. We are also an exclusive provider of certain travel booking services on Web sites operated by Yahoo!, Inc. ("Yahoo!") in the United States and Canada, Excite, Inc. ("Excite") and @Home Corporation ("@Home").

Travelocity was incorporated on September 30, 1999 as a wholly-owned subsidiary of Sabre Holdings Corporation ("Sabre"), in order to combine the online travel business conducted by Sabre (through its existing Travelocity

business unit, the "Travelocity Division") with the online travel business of Preview Travel. Sabre is the world leader in the marketing and distribution of travel through its Sabre(R)2 global distribution system ("the Sabre system"), and has been a leading provider of software solutions to the travel and transportation industries.

On March 7, 2000 Sabre completed the closing of the Merger certain related transactions which combined Travelocity, the Travelocity Division and Preview Travel in a holding company/partnership structure. Travelocity is a holding company whose sole asset is partnership units of Travelocity.com LP (the "Partnership"). The Partnership owns all of the combined assets and has all the combined liabilities of the Travelocity Division and Preview Travel. Sabre owns a 70% equity interest in the Partnership, which is comprised of Sabre's approximately 61% direct equity interest in the Partnership and approximately 9% indirect equity interest in the Partnership, represented by Sabre's equity interest in the Company.

The Company, through the Partnership, continues to operate the combined online travel business formerly conducted by the Travelocity Division and by Preview Travel. Although Travelocity does not have a majority equity interest in the Partnership, the Company controls the Partnership through its right to appoint a majority of the directors on the Partnership's board of directors. Accordingly, the Company consolidates the financial position and results of operations of the Partnership into the Company's financial statements.

Our principal corporate offices are located at 15100 Trinity Boulevard, Fort Worth, Texas 76155. Our telephone number is (817) 785-8000.

Industry Background

Growth of the Internet and Online Commerce

The Internet and commercial online services have emerged as significant global communications media enabling millions of people to share information and conduct business electronically. A number of factors have contributed to the growth of the Internet and commercial online services usage, including:

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(1) Travelocity is a registered trademark of Travelocity.com LP. All other names are trade names, trademarks and/or service marks of their respective company.
(2) Sabre is a registered mark of an affiliate of Sabre. All other names are trade names, trademarks and/or service marks of their respective company.

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- the large and growing number of advanced personal computers in the home and workplace;
- improvements in network infrastructure, making access to the Internet and commercial online services easier, faster and cheaper;
- increased acceptance of the Internet and commercial online services by consumer and business users; and
- consumers' growing confidence in both credit card transactions conducted online and the protection of their personal and confidential information.

Jupiter Communications estimates that the number of persons in the United States who use the Internet or other online services will grow from approximately 122 million in 2000 to approximately 194 million in 2005.

The functionality and accessibility of the Internet and commercial online services have made them increasingly attractive commercial media by providing features that have not been available through traditional channels. For example, the Internet and commercial online services provide users with convenient access to large volumes of real-time data to support their investment, purchase and other decisions. Online retailers are able to communicate effectively with customers by providing frequent updates of featured selections, content, pricing and visual presentations. Online retailers also provide tailored services because they capture valuable data on customer tastes, preferences, shopping and buying patterns. Unlike most traditional distribution channels, online retailers do not have the burden of managing and maintaining numerous local facilities to provide their services on a global scale. Online retailers benefit from the economies of scale in reaching and electronically serving large numbers of customers worldwide from a central location. Because of these advantages, an increasingly broad base of products and services is being sold online, with travel services as the leading category. Forrester Research estimates that the total value of online retail purchases by U.S. consumers was approximately $45 billion in 2000 and will increase to approximately $269 billion by 2005.

As the number of online content, commerce and service providers has

APP314

expanded, strong brand recognition and strategic alliances have become critical to the success of such companies. Brand development is especially important for online retailers due to the need to establish trust and loyalty among consumers in the absence of face-to-face interaction. In addition, some online retailers have begun to establish long-term strategic partnerships and alliances with content, commerce and service providers to rapidly build brand recognition and trust, enhance their service offerings, stimulate traffic, build repeat business and take advantage of cross-marketing opportunities.

The Traditional Travel Industry

The travel industry is one of the largest industries in the world. Travelers in the United States spent over $224 billion on travel in 2000 according to Goldman Sachs and Company Investment Research. Historically, airlines, hotels, rental car agencies, cruise lines and other travel suppliers have relied on internal sales departments and travel agencies as their primary distribution channels. Travel agencies typically book travel reservations through electronic global distribution systems such as the Sabre system and the Galileo system. Global distribution systems provide real-time access to voluminous data on fares, availability and other travel information.

Customers traditionally have relied on travel agents to access and interpret the rapidly changing information on global distribution systems by using complex and proprietary interfaces. The global distribution systems store over 59 million published fares that are updated five times daily. As a result, the ability of customers to obtain the most favorable schedules and fares has been subject to the skill and experience of individual travel agents (and to the access those agents enjoy to the schedules and fares of travel providers), who may not be available when the customer needs them.

Travel agencies are compensated primarily through commissions paid by travel suppliers, such as airlines, hotels and car rental companies, based upon services booked. Some travel agencies also charge service fees to their customers. In September 1997, in a move to lower distribution costs, the major U.S. airlines reduced the commission rate payable to traditional travel agencies from approximately 10% to approximately 8% and imposed a cap of $50 on commissions for round-trip ticket sales. These reductions were followed by similar reductions made by other airlines. In the fourth quarter of 1999, several major airlines further reduced their commission rates paid to traditional travel agencies from 8% to 5%.

Paralleling these trends, the major U.S. airlines reduced the commission rate payable to online travel agencies from approximately 8% to approximately 5% in late 1997 and early 1998. Since the first half of 1998, major airlines have capped their fixed rate commission for online round-trip ticket sales at $10. Effective March 1, 2001, Northwest Airlines, Inc.

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("Northwest Airlines") and its alliance partner KLM Royal Dutch Airlines ("KLM") ceased paying commissions for tickets booked through the Internet. As a result, the Company instituted a $10 service fee for tickets booked on our Web sites for Northwest Airlines and KLM flights, thus passing on the Company's costs of providing services to Northwest and KLM to Travelocity customers.

Currently, typical standard base commission rates paid by travel suppliers to traditional travel agents are approximately 5% for airline tickets (subject to a maximum of $25 and $50 for one-way and round-trip tickets, respectively), 10% for hotel reservations, 5% to 10% for car rentals, and 10% to 15% for cruises and vacation packages. In addition, travel agencies can earn performance-based incentive compensation (known as override commissions) from travel suppliers, which can substantially impact financial performance. These commission rates and override commissions are determined by travel suppliers. Travel suppliers also pay booking fees to providers of global distribution systems to compensate them for their services. The global distribution systems may pay travel agents booking incentives based on negotiated terms.

According to Travel Weekly, travel agency sales in the United States grew from $101 billion in 1995 to $143 billion in 1999, with more than half of those amounts spent on leisure travel. Although the commission reductions have resulted in some consolidation, the traditional travel agency distribution channel remains highly fragmented, with few nationally recognized brands. According to Travel Weekly's 1999 U.S. Travel Agency Survey published in August 2000, there are more than 32,000 travel agency locations in the United States, with the average travel agency location generating $4.4 million in annual gross bookings (i.e., the total purchase price of all travel services booked) per location.

The Online Travel Market

The Internet is dramatically changing the way that consumers and businesses communicate, share information and buy and sell goods and services.

APP315

The Internet reduces inefficiencies in markets characterized by the presence of large numbers of geographically dispersed buyers and sellers and in purchase decisions involving vast amounts of information from multiple sources. We believe that the worldwide travel industry, which exemplifies these characteristics, is especially well suited to benefit from increased Internet and electronic commerce adoption by consumers and businesses. As a result, leisure travel has already become the largest online retail category, with estimated online transactions projected to grow to $32.7 billion in 2005 from $12.2 billion in 2000, according to Forrester Research. In addition, approximately 6% of travel leisure services were purchased online in 2000.

Recent trends in the traditional travel industry have contributed to a need for a more effective and efficient means of purchasing and distributing travel services to address the changing needs of consumers and travel suppliers. For example, travel agencies are reducing their level of service in response to lowered commissions or in some cases charging customers for services. At the same time, many customers are demanding greater convenience and flexibility in how, where and when they shop for travel services. In addition, travel suppliers cannot use traditional travel agents to quickly implement effective marketing programs targeted to specific customer segments because of the large number of small travel agents.

As a result of these trends, the Internet and commercial online services have emerged as an attractive means of purchasing travel. The Internet enables online travel service providers to offer a marketplace that brings customers and travel suppliers directly together. In this marketplace, customers may choose from a diverse selection of travel options, travel suppliers may market and distribute their products and services more efficiently, and online travel service providers can obtain favorable pricing for their customers by aggregating customer demand more effectively than traditional travel agents. This marketplace also provides travel suppliers and other merchants with an effective means of advertising to a targeted audience.

Although the online travel service market presents attractive opportunities, there are challenges that must be overcome in order to enter the online travel marketplace. We believe that in order to succeed in this market, online travel services providers must invest in technology and infrastructure, attract a large number of customers to achieve economies of scale, establish strategic relationships to drive online traffic, incur the costs of building a brand, and obtain travel-related information and integrate it with booking capabilities.

The Travelocity Business Model

To address the market opportunities presented by changes in the travel industry, we plan to continue to satisfy customers' need for a convenient, comprehensive and personalized source of travel products, services and information. The implementation of our business model has resulted in our position as the leading online travel agency. We will focus on using our competitive strengths to execute our business model and maintain our leadership position in the industry.

Market Leader. Travelocity is the market leader in the online travel industry based on various measurements. According to Phocus Wright, we are the market share leader in gross bookings with a 35% share, with our nearest competitor at 25%. We have a 25 million member database. We also have a leading conversion rate of 8.1%, based on the average new monthly

3

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bookers in the fourth quarter of 2000 divided by the average monthly visitor. Our fourth quarter conversion rate exceeded our nearest competitor by 2.1 percentage points.

Robust Customer Database. One of the reasons Travelocity's conversion rate is the highest in the online travel industry is the Company's 25 million member database, which allows for direct marketing with low-cost delivery and enables the Company to convert lookers to bookers. Through this sophisticated database, the Company has information on our customers' demographics, shopping habits, travel and purchase preferences. The Company maintains a strict customer privacy policy (and never sells or rents personally identifiable customer information to third parties). With this information, we can responsibly target customers through e-mails about private sales, special fares and other promotions. The Company also targets customers through its Travelocity magazine and its Insider newsletter, which has a circulation of approximately 8 million customers.

Travelocity can market to customers via demand targeted e-mail, confirmation e-mail, ticketing e-mail, bon voyage e-mail, and e-mail during their trip. Travelocity can also be accessed on wireless devices such as cellular phones and hand-held devices. This accessibility and repetitive contact helps build a relationship with the customer and provides an opportunity to

APP316

advertise and sell additional products and services to our customers.

Key Alliances. Currently, approximately 60% of our transaction revenue is derived directly from Travelocity's main Web site, with approximately 40% from other distribution alliances. We have exclusive alliances with recognized Internet brands including Yahoo!, AOL (including the AOL Service, AOL.com, CompuServe, Netscape and Digital City), Excite and @Home. The Company has also partnered with Citibank USA and MasterCard to launch the Travelocity World MasterCard. Unlike other reward programs, the new Travelocity credit card enables cardholders to earn Travelocity Rewards points redeemable for any travel product or service available on Travelocity, no matter when the date of travel or the destination. We also have a commission arrangement with our affiliate Hotel Reservations Network, Inc. ("HRN") to provide customers with discounted rates at over 2,600 hotels worldwide. Through this arrangement with HRN, which was recently extended, the Company incurs no acquisition-related expenses or ongoing operational expenses, such as sales and service.

Deep Technical Resources. Travelocity's booking capability is powered by Sabre's technology platform which is highly scaleable. In addition, Travelocity has an internal staff of skilled software developers. This is augmented with a unique software development relationship with Sabre that provides access to Sabre's staff to develop additional innovative functions and features in the Sabre system. We were the first in the online travel industry to provide features such as ski maps, hotel mapping and dream maps.

In the fourth quarter of 2000, Travelocity announced the implementation of a new, industry-leading fare search technology that helps customers find even lower fares while shopping for and buying travel services online. This new technology goes beyond existing methods by increasing the range and scope of fare searches and by searching for combinations of "local" fares that beat traditional nonstop or connecting fares published between the traveler's requested cities. Historically, fare searches were limited in their breadth and depth, and in the types of searches that could be done. Travelocity's flight search technology finds opportunities for travelers to save money using a broader range of fares and by combining fares between local city pairs. The fare search system checks millions of possible combinations to ensure that the best possible options are displayed for the consumer. The new technology uses an innovative algorithm that efficiently checks schedules and airline availability interactively for the least expensive options that meet the traveler's needs first. The efficiency of this method makes it possible for real-time, scaleable searches. In addition, using our own UNIX(R)-based relational database of fares, schedules and availability, the customer can view a calendar over a three-month period. The calendar reveals the dates for the actual availability of a seat for the fare and shows the dates when the fare is not offered or is sold out.

Topaz International, an independent airfare auditing and benchmarking company, found that Travelocity located the lowest fare 80% of the time when searching 300 different reservation requests, compared to 48% and 37% for Expedia, Inc. ("Expedia") and ITA Software ("ITA"), respectively. In the study, Topaz compared the low-fare search capabilities of Travelocity, Expedia and ITA, the search engine of the airline consortium's proposed Web site, Orbitz. The study, conducted November 16 through 24, 2000, used 50 different routes and searched each route six different ways. The Topaz study found that of the 300 queries, Travelocity had the lowest fare 239 times, about 80% of the time, including 115 times in which its fare was lower than ITA and Expedia, 57 times when it was in a two-way tie, and 67 times when it was in a three-way tie.

Trusted and Reliable Customer Service. Providing superior customer service is a key element for maintaining customer loyalty. The Company has two internal customer service centers in San Antonio, Texas and Sacramento, California. Approximately 1,000 customer service agents are available 24 hours a day, seven days a week, 365 days a year to provide assistance to customers. This allows customers to talk with a telephone agent during the purchase process. Each Travelocity agent can access customer information which can be used to deliver personal attention to each customer. Our agents can also direct customers to other services they may need in the process of planning their trip.

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Diversified Revenue Mix. Travelocity offers one-stop travel shopping and reservation services, and provides reliable, real-time access to schedule, pricing and availability information for most airline seats offered on more than 700 airlines, more than 50,000 hotels, more than 50 car rental companies and more than 6,500 vacation packages, tour and cruise departures. In addition, we have travel content that includes Frommers, MapQuest, Weatherlabs, Lonely Planet, plus an online video library featuring numerous vacation locations. In the fourth quarter of 2000, our revenue mix consisted of approximately: 49% in air transactions; 18% in non-air transactions such as hotel, car, vacation packages and cruises; 28% in advertising; and 4% in other revenues. Other revenues consist primarily of service charges for the handling and express delivery of paper tickets and revenue related to certain warrants received from

APP317

HRN in connection with the Company's affiliation agreement with HRN. In the future, other revenues will also include fees related to the Travelocity World MasterCard membership, travel club membership, merchandise sales and other future products and services.

Strong Ad Sales. Travelocity provides travel suppliers targeted merchandising and advertising strategies designed to increase revenue. Without revealing individual customers' identities or jeopardizing their confidentiality, our customer database allows travel suppliers to implement targeted promotions through Travelocity. Travel suppliers may take advantage of context-sensitive advertising to maximize the value of their promotional message. They may contribute content such as photos that enrich the customer experience, while also making their product more visually compelling. Travelocity reaches over 7 million unique visitors per month and, combined with point of sale advertising, produces effective results for advertisers while providing more choices for customers. This strategy resulted in an increase in advertising revenue of $39 million, or 451%, from 1999 to 2000.

Broad Mobile Commerce Alliances. Travelocity's Web sites are now available to more than 60% of the U.S. wireless market, making them the most accessible travel Web sites for mobile commerce subscribers. With more wireless travel tools than any other provider, Travelocity has arrangements with Cingular , Sprint PCS, AT&T Wireless Services, Nextel Communications, Vodafone, British Telecommunications, OmniSky, Palm and flight paging services. Together, these services have more than 55 million subscribers. According to analysts, the Internet-enabled cellular phone industry is expected to account for 20% of e-commerce transactions by 2004. Travelocity will continue to strengthen its strategic partnerships and provide leading-edge technology. Travelocity's mobile partners currently carry the Company's entire array of innovative travel features, including wireless hotel booking and flight booking and rebooking.

Strong Management Team. In the aggregate, the executive management team of Travelocity has over 180 years of travel industry experience at companies such as American Airlines, Sabre, Preview Travel, American Express Travel Related Services, Travelfest, TWA and Pan Am. Our management's skills include experience in leadership, technology, sales and service, product marketing and development and consumer marketing.

Global Reach. We have tailored our Web sites to accommodate differences in culture, travel purchase behavior and supplier inventory preferences of particular countries. We will continue to operate localized Web sites in the United Kingdom (www.travelocity.co.uk) Canada (www.travelocity.ca), and Germany (www.travelocity.de), three of the largest international travel markets outside the United States. In Canada, we have arrangements with two of Canada's premier Internet brands, AOL Canada and Yahoo! Canada, to provide members more choice and depth of services for planning and buying travel online. We also provide a full range of travel products and services through our local customer service partners. Additionally, through the Agency Locator feature, customers worldwide can make reservations on Travelocity's Web sites and pick up their tickets at participating Sabre travel agencies. Through these services, we have made air, car, or hotel sales in more than 95 countries.

Travelocity has announced its expected participation as a founding shareholder and primary technology provider for two online travel exchanges. The Company intends to participate with Air New Zealand, Ansett Australia, Cathay Pacific Airways, China Airlines, Eva Air, Garuda Indonesia, Malaysia Airlines, Qantas Airways, Royal Brunei Airlines, Silk Air and Singapore Airlines to create the Asia-Pacific Travel Exchange. Another joint venture provides for an online travel exchange in Japan, which will include Japan Airlines, All Nippon Airways and 11 other major international airlines. Both exchanges, which plan to start their business-to-consumer Web sites later in 2001, will include a full spectrum of travel services, including air, hotel, car and land tours. They will also cater to market-specific needs, a key feature for any e-commerce business in the region given the diversity of cultures and languages. Travelocity will be the primary technology provider for the Asia-Pacific Travel Exchange and the yet-to-be-named Japan exchange, contributing online travel expertise and industry-leading technology. Consummation of these joint venture transactions is subject to finalizing definitive agreements.

Both of these joint ventures underscore our international strategy to participate in the explosive growth in online travel by working with leading partners in many regions of the world. Combining our online travel expertise and innovation with our partners' strong brands, quality product and understanding of local consumer needs will benefit all parties in driving global e-commerce.

5

<PAGE>

The Travelocity Future

Our business strategy will consist of leveraging our strengths as a database-driven, travel marketing and transaction company to enhance our position as the leader in online travel services.

APP318

Grow Top Line Revenue

Leverage our Strong Brand, Customer Database and Alliances. We will use our strong brand, customer database and alliances to drive consumers to our Web sites and increase the rate by which we convert lookers into bookers.

Brand. We plan to invest in expanding awareness of the Travelocity brand through an advertising program that will utilize various channels including online media, television, print, radio and the Internet. We also believe that word-of-mouth is an effective means of attracting new customers. Therefore, we strive to ensure that our customers have a positive experience with convenient, user friendly Web sites, which feature many time-saving tools and responsive customer service. On September 5, 2000, we introduced the Travelocity magazine, a logical extension of the Travelocity brand, bringing travel planning, travel-related content and technology to our Internet savvy customers. The publication enhances readers' travel knowledge, helping them better utilize Travelocity's products and services. Additionally, the magazine provides leisure and business travelers with "hands-on," in-depth destination information and travel tips, as well as news about online developments and innovations to keep online travel-planners in the know.

Customer Database. With approximately 25 million members, we have a valuable database that allows us to market products to these members. Each person who registers as a member on our Web sites has a profile in our customer database. Members can choose to provide us with travel preferences (for example, frequent travel programs and seating preferences), credit card billing information, ticket delivery address and other personal information. This information is used to assist members in making reservations quickly without having to provide the same information repeatedly.

We have invested in our technology with the acquisition of a Terradata relational database and customer relationship management software that allows us not only to track the purchases of our members, but also to retain everything they have "looked at" and to know exactly where they have exited the system. This provides invaluable information on the shopping habits and travel preferences of our members. We can provide e-mails that are specifically targeted to a certain segment of our members. For example, our software detects fare sales, scans our database for members who have either purchased or looked at these specific routes, and sends them an e-mail on the promotion.

In addition, we send our members "Real Deals," biweekly e-mails on special promotions, and the Insider, Travelocity's monthly newsletter. We are also able to contact the customer via various e-mails sent not only during the purchase process, including demand targeted, confirmation, ticketing, bon voyage, but after the customer's trip. These messages contain product and service offerings to cross-sell and up-sell to our customers.

Alliances. Our online travel services are accessible directly or through AOL (including AOL, AOL.com, Netscape, CompuServe and Digital City), Yahoo!, Excite and @Home, and several other co-branded Web sites. Both our Web sites and our customer service centers operate 24 hours a day, seven days a week, 365 days a year. We will continue to enhance and pursue strategic relationships to increase our access to online customers.

Develop New Products and Tools. We plan to introduce products and tools that will better enable the customers of Travelocity to shop and buy travel products. Travelocity will use its significant travel industry expertise, combined with our five years of experience in selling travel online, to continually work to bring the customer a unique travel shopping experience.

Increasing Advertising Revenue Sales. We will increase our advertising revenues, which produce highly favorable margins, through our strong in-house sales and marketing team and through our AOL alliance. Advertising revenue is a very important revenue stream for us due to its favorable margins. We will continue to increase the value we provide to suppliers by developing new ways for them to effectively market and distribute their products and services to our members.

Develop New Revenue Streams. We plan to expand our focus on the business-to-business sector through further targeting the unique needs of the small business traveler who books his own travel arrangements, a significant and growing sector of the online travel market.

We will expand our international presence after carefully evaluating the market for travel products and services and the popularity of online commerce in particular countries. We will draw upon our experience with our existing Web sites to tailor our international Web sites to the specific characteristics of each local market.

APP319

We will also explore the potential of selling other products that we believe will satisfy our customers' need for a convenient, comprehensive and personalized source of travel services.

Expand Gross Margins

Higher Margin Products. We plan to continue to expand our travel product and service offerings. We initiated the merchant model for airfares in 2000, which provides for the sale of higher-margin net air fares. We also plan to derive more revenue from higher-margin product offerings such as hotel reservations, car rentals, cruises and vacation packages. We will use our booking engine and database to sell more products. We also plan to expand the scope of destination offerings to provide more travel options to our customers. We will create our own vacation brand and introduce Travelocity Preferred Traveler, our own travel club. We will consider other means of purchasing travel services, such as purchasing through consolidators or purchasing wholesale inventory at special prices.

Control Cost of Revenues and Reduce Unit Operating Costs. We plan to continue to control the cost of revenues and reduce operating costs as a percent of revenue through technology and productivity management, economies of scale and strong financial controls. We plan to continue to increase the efficiency and effectiveness of our Web sites through enhancement of the underlying infrastructure and investment in improved technology to anticipate increased transaction volume. In our customer service centers, we are implementing a new Interactive Voice Response ("IVR") system that will substantially decrease the amount of customer service agent's time. Many calls to the customer service center are for verification of the online reservation. When a customer calls, the IVR system asks the customer for a trip identification number and responds with the details of the customer's reservation, including flight numbers and departure dates and times.

Strategic Relationships

We will continue to pursue strategic relationships to increase our access to online customers, to build brand recognition and to expand our online presence. We have alliances with strategic partners that are among the strongest and most recognized brands associated with the Internet including:

America Online

We are the exclusive travel booking system for AOL for a five year period ending in 2005, on the United States versions of AOL, AOL.com, CompuServe, Netscape and Digital City. We are the primary provider of travel information and other related services through co-branded sites on these AOL services. We expect that the AOL relationship will provide Travelocity with positive cash flow over the term of the agreement.

Key terms of the agreement include:

- subject to AOL meeting specified revenue targets, a percentage of which are shared with us, we are obligated to pay AOL a total of $200 million over the five-year term of the agreement, as well as a percentage of all commissions received by us from bookings made on the co-branded sites;
- AOL pays us a percentage of cash advertising revenue collected by AOL from advertising on the co-branded sites, within AOL's travel channels, on Web pages throughout the AOL properties on which our travel booking system or our other travel-related information is located, or sold by AOL to a specified group of travel providers and providers of specified ancillary travel services;
- AOL places promotions for travel services throughout its AOL properties that will permit AOL users to link to the co-branded sites;
- we must include references to "Travel" as an AOL keyword in most of our advertising; and
- AOL must meet cumulative advertising revenue and payment targets by the end of the second, third and fourth years of the agreement.

If AOL does not meet the cumulative revenue targets, we may elect to operate under alternative terms and conditions set forth in the agreement. If we elect to do so, AOL may terminate the agreement. The alternate terms and conditions would generally be as follows:

- we would no longer have any payment obligations to AOL, would keep

APP320

all commission revenues from travel services booked on the co-branded sites, and would receive a percentage of the advertising revenues but only from advertisements placed on Web pages that contain only our travel-related information;

- we would continue to maintain and operate the co-branded sites, the travel booking system and our travel-related services; and

- AOL would no longer be obligated to promote our travel booking system and travel-related information, and AOL could provide access to and promote another travel booking system.

At the end of the agreement's term, AOL may, annually for each of four years, extend the agreement for an additional one-year term. The agreement during the renewal period would contain the alternate terms and conditions described above. In addition, AOL may terminate the agreement at any time if we are acquired by an Internet service provider or other specified types of AOL competitors.

Although the agreement provides that our travel booking system will be the only travel booking system on the AOL properties, this exclusivity is subject to some exceptions. Although the agreement prohibits us from promoting any other Internet site as a preferred provider of travel reservations or other travel-related services, we would not normally promote other Internet sites in this way.

Yahoo!

We are the exclusive provider of air, car and hotel booking services for Yahoo!, one of the most recognized brands associated with the Internet, pursuant to an agreement that expires at the end of 2002. Yahoo! is a global Internet media company that offers a branded network of media, commerce and communication services to users worldwide and is the leading Internet portal in terms of traffic, advertising and household and business user reach.

We provide a database containing schedule, availability and price information that allows users of the Yahoo! Web site to book and pay for air, car and hotel services. We will collaborate with Yahoo! to further develop, promote and operate the Yahoo! Travel Web site and a Web site containing the "Travelocity" and "Yahoo!" brands, known as a co-branded site. Users may link to the Yahoo! Travel Web site from the Yahoo! home page, and to the co-branded site from the "Air," "Car" and "Hotel" images in the "Make Reservations" section of Yahoo! Travel.

Excite

We are the exclusive provider of travel booking services for Excite.com and the other Web sites operated by Excite, including WebCrawler, although our exclusivity is subject to specified exceptions. Excite is a leading Internet search engine provider.

Under our agreement with Excite, we have a co-branded site that is included on all travel channels within the Excite network. Also, we have travel-related content, such as travel news articles and travel specials, for the Excite Travel Channel and other Excite services. In addition, Excite has agreed to promote and advertise our services throughout the Excite network and to display within the Excite network a minimum number of Internet links to our travel site or to the co-branded site. We make additional payments to Excite representing a share of advertising revenues received by the Company for advertising appearing on the co-branded site. Additionally, we have agreed to promote Excite's services on our Web sites.

Our arrangement with Excite expires in September 2002. We are obligated to pay to Excite a percentage of commissions we earn in excess of specified thresholds. In addition, we and Excite will cooperate in selling, and sharing revenues from, advertising on the Excite Travel Channel.

Our exclusive arrangement is subject to specified exceptions. If Excite decides during the term of the agreement to offer travel booking services or travel-related Internet functions that we do not then provide, we have a right of first refusal to negotiate our provision of these new services to the Excite Travel Channel and the WebCrawler Travel Channel. We also have a right of first refusal if Excite wishes to enter into an agreement with a third party that will provide travel services on a co-branded site on the Excite network. If we enter into an agreement with a third party with substantially the same scope as our agreement with Excite and on terms which, taken as a whole, are more favorable for the third party than the terms of our agreement with Excite are for Excite, then we are required to offer these more favorable terms to Excite.

APP321

@Home

We are the exclusive air, car and hotel booking service provider for @Home subscribers and the anchor tenant for the @Home's shopping guide. Because @Home uses the broadband attributes of cable, we are able to provide multimedia services and content through this channel. @Home has agreed not to create a channel or sub-channel that provides travel

<PAGE>

information for any of our direct competitors or to allow any competitor to place any promotional material on @Home Web sites on which we are featured.

We have agreed to make quarterly fixed payments to @Home, and to make variable payments to @Home equal to a portion of our revenue from our advertising on the @Home Web site and from sales of air tickets and other goods and services to @Home subscribers. The amount payable to @Home is the greater of the variable payment or the fixed payment. However, our fixed payments to @Home will be reduced if, in any year, the total amount of variable payments is less than the fixed payments made by us in that year and the average number of @Home subscribers falls below a threshold amount.

Our agreement expired in March 2001. We are currently negotiating with @Home the terms of a renewed agreement.

Lycos

We were the exclusive travel service provider of travel booking services for Lycos' Travel Web Guide and Travel Network pursuant to an agreement which expired on September 15, 2000. Under this agreement, we operated a co-branded site that was promoted throughout the Lycos Web site. We also provided Lycos with a variety of travel-related services and information for the co-branded site, including fare finding, travel news stories, travel promotions and information regarding special travel fares. We received payments from Lycos representing a share of advertising revenues Lycos received in connection with the co-branded site. Over the term of the agreement, we made minimum payments to Lycos, as well as paid a portion of commissions we earned through the co-branded site in excess of specified thresholds, and fees for providing links to our services above specified thresholds.

GO Network

We were a co-branded provider of air, hotel and car services accessible from the GO Network Travel Center home page. We paid GO Network a set percentage of all net revenues that we received for products and services sold to GO Network users or on GO Network co-branded sites that we hosted. We also purchased from GO Network guaranteed minimum advertising on GO Network during the term of the agreement. The agreement with GO Network was terminated on February 8, 2001.

Technology

We expect that the Travelocity travel planning and reservation system will continue to be a strong platform for industry innovation. We are continually upgrading our systems to meet the expanding needs of the online travel consumer. Travelocity's Web sites are based on a carefully chosen combination of commercial and proprietary tools.

Our multi-tiered system gives us the scalability and reliability to expand to meet our current and future growth. Netscape Enterprise Server, which is our Web server, Vignette Story Server, which we use for our destinations content, and Tool Command Language, which is our primary user interface programming language, handle the demands of serving Web pages. Our proprietary application server executes business rules and directs messages among our content sources. A third level of software accesses destinations, profile and reservations content sources. The Sabre system is our primary source of reservations content.

The Company recently completed an extensive technology upgrade that is based on an entirely new Unix(R)-based pricing platform that allows us to take the key components of the fare search process, such as fare and flight availability, off the mainframe, so it can sort through millions of variables involved in fare searching in new ways. This will make searching more efficient for customers and give the Company an even better ability to meet the unique needs of online shoppers by adding features more quickly in the future. Our first implementation of this technology allows consumers to click on the lowest fare and immediately view a calendar showing flight availability over a three-month period. By moving their trip just a few days, consumers may save hundreds of dollars.

The Company's systems are currently hosted and maintained at Sabre's secure computer center. Sabre and the Company have significant experience in developing, operating and maintaining reliable, high volume online transaction

APP322

processing systems.

Research and development costs incurred were approximately $650,000, $300,000 and $137,000 for 2000, 1999 and 1998, respectively.

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Consumer Marketing

Driving new and retaining customers is critical to our success, and we measure our success by our ability to attract visitors to our Web sites, convert those visitors into first-time buyers and convert first buyers into repeat buyers.

Our strategy to convert visitors into buyers uses a combination of incentives, including seasonal and purchase-related promotions that take advantage of our customer database and Web sites. As part of this effort, we plan to negotiate special rates and benefits to obtain a superior travel inventory for our customers. We believe that our increasing scale will allow us to negotiate on more favorable terms. Through our research with visitors and infrequent purchasers, we are developing new programs and features (including personalization and loyalty incentives) that will encourage purchases and repeat use.

Travelocity also employs a variety of online and traditional media programs and promotional activities such as:

- Advertising. As part of our strategic alliances, we invest in both online and traditional advertising to drive traffic to our Web sites. To generate traffic to Travelocity's Web sites in a cost efficient manner, we place advertisements on high volume Web sites and purchase targeted keywords on popular search engines including Yahoo!, Alta Vista, Infoseek and others. Travelocity also advertises in traditional print and broadcast media to increase the awareness of its service, product enhancements and promotional offerings.

- Public Relations. The core of our public relations effort is media relations, industry analyst relations and speaking engagements. We maintain relations with journalists and industry analysts to secure unbiased, third-party endorsements for Travelocity. We pursue coverage by online publications, search engines and directories. In addition to media and analyst relations, our employees actively participate in industry events and conferences.

- Co-marketing, Promotions and Loyalty Programs. We continue to establish significant co-marketing relationships to promote our service and to sponsor contests that offer travel-related prizes. These programs typically involve participation with airlines, hotels, car rental agencies and online service providers. We intend to enter into additional co-marketing relationships in support of our marketing strategy. From time to time, we offer various incentives and awards to Travelocity's customer base. These incentives are designed to increase customer loyalty and awareness of our travel services and of the Travelocity brand. For example, we plan to continue to provide customers with bonus frequent flyer miles and special companion fares during targeted promotional periods, and enter into customer referral agreements with strategic partners.

- Direct Marketing. Travelocity maintains a proprietary database which includes demographic profiles, customer preferences, shopping and buying patterns and other key customer attributes. This data enables us to track the effectiveness of promotions and incentives and to understand seasonal and other trends in order to create and quickly implement marketing programs targeted to specific customer segments. In addition, we regularly communicate with our customers through targeted e-mail.

Sales and Supplier Relations

We plan to continue to build long-term relationships with travel suppliers. We have contractual relationships with travel suppliers in the air, car and hotel sectors which allow us to generate additional revenue through up front payments or through payments made on satisfying market share goals. In some cases, Travelocity's Web sites are required to prominently display a supplier's brand or marketing message; however, Travelocity Web Sites maintain unbiased displays of airline flights and service offerings at all times. The terms of these agreements typically vary in length from one year to three years.

Competition

The online travel services market is new, rapidly evolving and intensely

APP323

competitive. Travelocity competes with a variety of companies, including its suppliers, with respect to each product or service that it offers, including:

- online travel agents such as Expedia, a majority-owned subsidiary of Microsoft Corporation;
- consolidators and wholesalers of airline tickets and other travel products and services, including shopping clubs and online consolidators such as Cheaptickets.com and priceline.com;
- individual airlines, hotels, rental car companies, cruise operators and other travel service providers, some of which are suppliers to our Web sites and many of whom offer travel products and services directly through their own Web sites, or, increasingly, in combination with other suppliers;

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- alliances and joint sales agencies formed by travel suppliers, such as Orbitz and Hotwire, which may obtain favorable or exclusive access to certain inventory of those suppliers; and
- local, regional, national and international traditional travel agencies.

Internationally, Travelocity competes with a different set of participants in each national market, ranging from traditional travel agents, market-specific Web sites and global competitors, such as Expedia, which have expanded beyond the U.S. market. In Europe, local online competitors include e-bookers and lastminute.com.

As the market for online travel services grows, we believe that the range of companies involved in the online travel services industry, including travel suppliers, traditional travel agencies, travel industry information providers, online portals and e-commerce providers, will increase their efforts to develop products and services that will compete with our products and services. We intend to remain competitive through a combination of comprehensive service offerings, technological innovation and customer service.

Government Regulation

We must comply with laws and regulations relating to our sales and marketing activities, including those prohibiting unfair and deceptive advertising or practices and those requiring us to register as a seller of travel products and services, and with disclosure requirements, and participate in state restitution funds. In addition, many of our travel suppliers and global distribution systems are heavily regulated by the United States and other governments and we are indirectly affected by such regulation.

The sale and distribution of online travel services are currently subject to regulations in Canada (Canadian Computer Reservations Systems Regulations) and the European Commission (EC CRS Code of Conduct). The U.S. Department of Transportation is currently considering whether to extend existing regulations to online travel services. The U.S. regulations currently apply to global distribution systems that are owned by, marketed by or affiliated with airlines and that are marketed to travel agencies. We expect the Department of Transportation to issue guidance on these regulations in 2001. If the U.S. regulations are extended to online travel services, and the current Canadian and EC regulations are modified, such regulations could affect how we obtain, market, display and distribute our airline inventory, and, depending on the particular regulations adopted, increase our costs of doing business, decrease our opportunity to obtain airline inventory from airline carriers, and reduce our sales and revenues.

Data collection, protection, security and privacy issues are a growing concern in the U.S, and many countries around the world. Government regulation is evolving in these areas and could limit or restrict Company's ability to market its products and services to consumers, increase Company's costs of operation and lead to a decrease in demand for our products and services. Federal, state and local governmental organizations, as well as foreign governments and regulatory agencies, are also considering legislative and regulatory proposals that directly govern Internet commerce, and will likely consider additional proposals in the future. We do not know how courts will interpret laws governing Internet commerce or the extent to which they will apply existing laws regulating issues such as property ownership, sales and other taxes, libel and personal privacy to the Internet. The growth and development of the market for online commerce has prompted calls for more stringent consumer protection laws that may impose additional burdens on companies that conduct business online.

Federal legislation imposing limits on the ability of states to tax

APP324

Internet-based sales was enacted in 1998 and will exempt some sales transactions conducted over the Internet from multiple or discriminatory state and local taxation through October 21, 2001. It is possible that this legislation will not be renewed when it terminates. Failure to renew this legislation could allow state and local governments to impose taxes on Internet-based sales, and these taxes could adversely affect our business, financial condition and results of operations.

Intellectual Property

We rely on trademark, patent, copyright, trade secret laws and confidentiality and licensing agreements with employees, customers, partners and others to protect our proprietary rights. Effective trademark, patent, copyright and trade secret protection may not be available in every country in which our services are available and policing unauthorized use of our proprietary information is difficult and expensive.

We rely on licenses from third parties to use their technology and information, which we incorporate and integrate into our Web sites. We cannot assure that these licenses will continue to be available to us on commercially reasonable terms. The loss of these licenses could require us to obtain alternative technology and information of lower quality or at greater cost. In addition, third parties that develop new technology which would be useful to us may decline to grant us a license to use that

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technology. Also, third parties may assert patent or other intellectual property rights to technology or business methods that would otherwise be in the public domain. In either case, we would not be able to use the technology, which may prevent us from providing new and useful services to our customers.

We also may grant licenses to some of our proprietary rights, such as trademarks, patents or copyrighted materials to third parties.

We may become involved in litigation to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. We may be required to indemnify travel suppliers and others with whom we do business for intellectual property claims made against them in connection with the services we provide.

The steps that we take to protect our proprietary rights may prove to be inadequate and third parties may infringe or misappropriate our proprietary rights. Licensees of our technology also could take actions that might decrease the value of our proprietary rights or reputation. In addition, Travelocity and Sabre have agreed to share some of their intellectual property rights. Because this agreement permits more than one entity to use these intellectual property rights, this agreement may increase the chance that our intellectual property could be misappropriated by a third party. If we have to enforce our intellectual property rights in court, we may incur substantial costs and divert our management's resources and attention.

Our Relationship with Sabre

Sabre holds an approximate 22% equity interest in the Company. However, it holds shares of our common stock and Class A Common Stock which, when combined, represent an approximate 70% voting interest. Through this voting interest, Sabre is able to significantly influence the management and affairs of our business and all matters requiring stockholder approval.

Employees

As of December 31, 2000, we had approximately 1,300 employees. None of our employees are represented by a labor union, and the Company considers its employee relations to be good. Competition for qualified personnel and management in this industry is extremely competitive. The Company believes that its future success will depend in part on its continued ability to attract, hire and retain qualified personnel and maintain good working relations with its employees.

ITEM 2. PROPERTIES

We are headquartered in Fort Worth, Texas in approximately 53,300 square feet of space in a building leased from a third party. This space houses our principal administrative, technology and sales and marketing facilities.

Additionally, we lease approximately 39,000 square feet of space in San Antonio, Texas from a third party. This space houses our customer service and fulfillment operations.

We lease three office buildings in San Francisco, California from a third party. The first building, consisting of approximately 35,000 square

APP325

feet, houses administrative, marketing, customer service and computer and communications personnel. The second building, consisting of approximately 8,000 square feet, is subleased to a third party. The third building, consisting of approximately 16,000 square feet, is subleased to CNX Media, a related party. The lease for the first building will expire in June 2001. The Company has executed a lease agreement with a third party for the lease of an office building in San Francisco consisting of approximately 42,000 square feet. Administrative, marketing, customer service and computer and communications personnel will be moved to the new location in June 2001.

We also lease approximately 18,000 square feet in Rancho Cordova, California from a third party. This space houses an additional customer service facility.

ITEM 3. LEGAL PROCEEDINGS

We are not currently subject to any material legal proceedings. The Company may from time to time become a party to various legal proceedings arising in the ordinary course of our business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

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ITEM 5. MARKET FOR REGISTRANTS COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the Nasdaq National Market under the symbol TVLY. Our common stock began trading on March 8, 2000 with the consummation of the Merger. As of March 29, 2001 there were 73 holders of record of the Company's common stock. The Company's 33.0 million shares of Class A Common Stock are owned by Sabre Holdings Corporation and its affiliates. There is no public market for these shares. As of March 29, 2001 Sabre also held 2,033,970 shares of our common stock.

The following table sets forth the high and low closing sales prices for our common stock on the Nasdaq National Market for the periods presented:

	High	Low
2001		
First Quarter (through March 29, 2001)	$28.89	$11.68
2000		
First Quarter (beginning March 8, 2000)	46.75	29.38
Second Quarter	32.11	14.69
Third Quarter	20.00	10.69
Fourth Quarter	17.13	9.03

No cash dividends on Class A Common Stock or common stock were declared or paid during 2000. Currently, we do not intend to pay cash dividends in the foreseeable future but will accumulate any future earnings to finance the growth of our business.

ITEM 6. SELECTED FINANCIAL DATA

The following selected historical financial data for each of the years ended December 31, 1996 through 2000 have been derived from our audited financial statements and the related notes. For the years ended December 31, 1996 through 1999, the historical financial information presented below does not include the impact of the contribution agreements and the intercompany agreements that were entered into between the Partnership and Sabre as of the date of the Merger.

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	Year Ended December 31,				
	2000	1999	1998	1997	1996
			(in thousands)		
Statements of Operations Data					
Revenues:					

<S>	<C>	<C>	<C>	<C>	<C>
Transaction revenue	$ 139,814	$ 54,567	$ 18,370	$ 8,345	$ 10,94
Advertising revenue	47,374	8,591	2,821	577	94
Other	5,482	1,029	47	365	85
Total revenues	192,670	64,187	21,238	9,287	11,89
Cost of revenues	72,131	40,255	19,067	11,878	9,70
Gross profit (loss)	120,539	23,932	2,171	(2,591)	2,18
Operating expenses:					
Selling and marketing	120,112	29,532	10,608	6,887	5,55
Technology and development	18,507	9,624	8,483	6,549	7,03
General and administrative	16,698	5,407	4,360	2,693	2,47
Expenses related to integration of Preview Travel	1,537	--	--	--	--
Stock compensation	4,882	--	--	--	--
Amortization of intangible assets and goodwill	72,607	--	--	--	--
Total operating expenses	234,343	44,563	23,451	16,129	15,06
Operating loss	(113,804)	(20,631)	(21,280)	(18,720)	(12,87
Other income (expense)	4,816	--	--	--	(8
Net loss before Sabre's interest	(108,988)	(20,631)	(21,280)	(18,720)	(12,961
Sabre's interest in the partnership (1)	62,086	--	--	--	--
Net loss	$ (46,902)	$ (20,631)	$ (21,280)	$ (18,720)	$ (12,961
Loss per common share, basic and Diluted	$ (2.17)	--	--	--	--
Weighted average shares Outstanding	21,647	--	--	--	--
Balance Sheet Data (at the end of the period) (2)					
Cash and marketable securities	$ 71,555	$ --	$ --	$ --	$ --
Working capital (deficit)	91,853	(5,319)	(462)	(1,205)	(1,87
Intangible assets and goodwill	198,113	4,190	6,238	4,286	--
Total assets	327,968	9,639	11,169	9,126	92
Total stockholder's equity (deficit)	306,288	(68,562)	(47,931)	(31,755)	(13,03
Supplemental Financial Data					
Gross bookings (3)	$ 2,355,500	$ 808,466	$ 284,641	$ 121,000	N/A(4)

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(1) Represents the allocation of losses of the Partnership, which is consolidated with the Company for financial reporting purposes, to Sabre, based on Sabre's direct ownership interest in the Partnership. The amount of losses which may be allocated to Sabre are, under generally accepted accounting principles ("GAAP"), limited to the amount of Sabre's investment in the Partnership. This allocation was approximately 61% of the Partnership's losses from March 7, 2000 through September 30, 2000, and 54% during the fourth quarter of 2000.

(2) On March 7, 2000, we completed the Merger with Preview Travel, which affects the comparability of the historical financial and operating data for the periods presented. Refer to Note 3 to the Financial Statements.

(3) Represents the total purchase price of all travel services booked through Travelocity's Web sites. This presentation of gross bookings does not affect our operating results, and gross bookings are not included in revenues. Management believes that gross bookings provide a more consistent comparison of business activity between historical periods than do transaction fees because of changing commission rates over the periods. Gross bookings is not a financial measurement in accordance with GAAP and should not be considered in isolation or as a substitute for other information prepared in accordance with GAAP, and period-to-period comparisons of gross bookings are not necessarily meaningful as a measure of our revenues due to, among other things, changes in commission rates, and, as with operating results, should not be relied upon as an indication of future performance. See "Management's Discussion and Analysis of Financial Position".

(4) Gross bookings for this period are not available.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The information provided in this Management's Discussion and Analysis of

APP327

Financial Condition and Results of Operations includes the results of the Company from the date of the Merger on March 7, 2000, through December 31, 2000 and the historical results of the Travelocity Division as an operating unit of Sabre for all periods prior to the Merger. Results of operations for the twelve months ended December 31, 2000 include the impacts of the contribution agreements and the intercompany agreements entered into between the Partnership and Sabre for the period prior to the Merger. Results of operations prior to the Merger do not include financial effects of the Merger with Preview Travel. Historical results prior to the Merger are not indicative of what our future financial position or results of operations will be subsequent to the Merger. Pro forma results for the twelve months ended December 31, 2000 and 1999 are also included herein to illustrate the effect of these agreements and the Merger on our historical operations and financial position.

During 2000, our revenues included access fees received under our access agreement with Sabre. During 1999, our revenues included booking fees from travel suppliers collected by Sabre and transferred to us. For both 2000 and 1999, transaction revenues also included commissions from travel suppliers for online purchases of their products and services by customers visiting the Company's Web sites. The commission rates paid by travel suppliers are determined by individual travel suppliers and are subject to change.

Gross bookings of travel services through our Web sites increased from $280.7 million in the fourth quarter of 1999 to $696.4 million in the fourth quarter of 2000, which resulted in an increase in transaction revenues from $19.2 million to $44.0 million for the corresponding periods. For the twelve months ended December 31, 1999 and 2000, gross bookings increased from $808.4 million to $2.4 billion, which resulted in an increase in transaction revenues from $54.6 million to $139.8 million for the corresponding periods. Gross bookings represent the total purchase price of all travel services booked through our Web site. Gross bookings are not a financial measurement in accordance with GAAP and should not be considered in isolation or as a substitute for other information prepared in accordance with GAAP. Period-to-period comparisons of gross bookings are not necessarily meaningful as a measure of our revenues due to, among other things,

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changes in commission rates. As with operating results, they should not be relied upon as an indication of future performance.

Prior to the Merger, advertising revenues were generated primarily through an agreement with DoubleClick Inc. ("DoubleClick") for the placement of advertising by third parties on our Web site and through the direct sale of advertisements on our site. Under the agreement, DoubleClick obtained advertisers for our site, collected the revenue paid by the advertisers, and paid us an amount that was net of fees due to DoubleClick for its services. We recorded advertising revenue generated through the agreement with DoubleClick on a net of fee basis in the period the advertisements were delivered. Since the Merger, the majority of our advertising revenue has been generated through direct sales. Beginning in the second quarter of 2000, advertising revenue includes our share of travel-related advertising revenue on the AOL sites under the terms of our revenue sharing agreement with AOL. Advertising revenue increased from $2.8 million in the fourth quarter of 1999 to $18.6 million for the corresponding period in 2000. For the twelve months ended December 31, 1999 and 2000, advertising revenues increased from $8.6 million to $47.4 million, respectively.

Costs of revenues include costs of operating our customer service centers, data processing charges and costs associated with operating our Internet infrastructure.

Gross Margins

Our gross margins for the three months ended December 31, 1999 and 2000 were 42.9% and 68.4%, respectively. For the twelve months ended December 31, 1999 and 2000, gross margins were 37.3% and 62.6%, respectively. These increases were due primarily to the mix of transaction revenues and advertising revenues, the mix of travel services sold, the level of commissions on travel products and services, economies of scale and more favorable terms under our access agreement with Sabre. We expect higher gross margins on advertising revenues than transaction revenues, higher commission rates on vacation packages than hotel rooms and car rentals and higher commission rates on hotel rooms and car rentals than airline tickets.

Results of Operations

2000 Compared to 1999

Revenues

Transaction Revenues. Transaction revenues increased from $54.6 million to

APP328

$139.8 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $85.2 million, or 156%. This increase was primarily attributable to an increase in gross bookings through our Web sites and added sales resulting from the Merger. Gross bookings increased from $808.4 million for the year ended December 31, 1999 to $2.4 billion for the year ended December 31, 2000.

Advertising Revenues. Advertising revenues increased from $8.6 million (net of fees paid to DoubleClick of $2.0 million) to $47.4 million (net of fees of $884,000) for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $38.8 million, or 451%. This increase was due primarily to a significant increase in net revenue from our advertising revenue sharing agreement with AOL and increased advertising impressions from the direct sale of advertising by our direct sales force. Using a direct sales force instead of DoubleClick reduced fees paid for advertising services.

Other Revenues. Other revenues increased from $1.0 million to $5.5 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $4.5 million, or 433%, due primarily to the Company's receipt of service charges for the handling and express delivery of certain paper tickets and the recognition of revenue related to certain warrants received from HRN in the first quarter of 2000 in connection with an affiliation agreement.

Costs of Revenues

Costs of revenues increased from $40.3 million to $72.1 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $31.9 million, or 79%. This increase was due to increased transactions resulting in increases in costs associated with customer service operations, including the addition of personnel and other costs associated with a new customer service center effective with the Merger. Costs of revenues declined as a percentage of total revenue from 62.7% for the year ended December 31, 1999 to 37.4% for the year ended December 31, 2000, primarily due to increased efficiencies in the customer service centers and to more favorable terms under our access agreement with Sabre.

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Operating Expenses

Selling and Marketing. Selling and marketing expense consists of advertising costs to promote the Company's Web sites, the amortization of payments made to strategic distribution alliances with companies such as AOL, Yahoo!, Excite, Lycos and @Home, amortization of trademarks and salaries and benefits. Selling and marketing expenses increased from $29.5 million to $120.1 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $90.6 million, or 307%. This increase was due primarily to increased costs relating to the amortization of payments made to strategic distribution partners in connection with new agreements with AOL, Excite and Lycos effective with the Merger and an increase in advertising spending. The increase was also due to an increase in salaries and other employee related costs to support additional direct selling efforts and the addition of Preview Travel's direct sales force effective with the Merger.

Technology and Development. Technology and development expense consists of salaries and related costs and charges from Sabre for development and maintenance of our Web sites, including enhancements to our Web sites. Technology and development expenses increased from $9.6 million to $18.5 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $8.9 million, or 92%. This increase was due primarily to an increase in salaries and benefits associated with the transfer of development personnel to the Partnership from Sabre in 2000, additional personnel from the Merger with Preview Travel and additional costs incurred to enhance and maintain our Web sites. This increase was partially offset by a decrease in development labor charges from Sabre due to the transfer of development personnel to the Partnership.

General and Administrative. General and administrative expense consists of fees paid to Travelocity Holdings, Inc. ("Travelocity Holdings"), a wholly-owned subsidiary of Sabre, and Sabre for salaries and benefits for Travelocity Holdings management devoted to the Company, corporate facility services, legal services, accounting and other services. General and administrative expense also includes salaries and benefits of management and administrative costs of the Company. General and administrative expenses increased from $5.4 million to $16.7 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $11.3 million, or 209%. This increase was due primarily to salaries and employee-related costs and fees paid to Travelocity Holdings and Sabre and administrative requirements needed to support our growth and the Merger.

APP329

Integration Related Expenses. Integration related expenses represent costs specifically associated with the integration of the Company and Preview Travel. Integration related expenses were $1.5 million for the year ended December 31, 2000. No comparable amounts were recorded for the year ended December 31, 1999.

Stock Compensation Expenses. Stock compensation expenses represent the expenses, measured at fair value, associated with stock options held by employees of Travelocity Holdings in accordance with Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation ("FIN 44"), which was adopted by the Company on July 1, 2000. FIN 44 required the Company to recognize stock compensation expenses at fair value for options held by employees of Travelocity Holdings. In addition, stock compensation expenses include expenses associated with the acceleration of vesting of stock options held by certain key former employees of Preview Travel. These expenses are being recognized over the shorter of the estimated remaining service period or the twelve-month period following the close of the Merger. Stock compensation expenses also include expenses for unvested stock options held by former employees of Sabre that were converted into the Company's stock options on the date of the Merger and expenses for options granted to a consultant by Preview Travel which were assumed in the Merger. Stock compensation expenses for the year ended December 31, 2000 were $4.9 million. No stock compensation expense was recorded for the year ended December 31, 1999.

Amortization of Intangible Assets and Goodwill. Amortization of intangible assets and goodwill represents the amortization of intangible assets and goodwill recorded in conjunction with the Merger. Total amortization expense for the year ended December 31, 2000 was $72.6 million. The goodwill is being amortized over a three-year period. No amortization was recorded for the year ended December 31, 1999, as the Merger occurred in March 2000.

Interest Income, Net. Interest income represents interest income on marketable securities held by the Company. Interest income for the year ended December 31, 2000, net of interest expense related to capital lease obligations acquired effective with the Merger, was $3.7 million. Prior to the Merger, the Company did not maintain cash balances or investments.

Other income. Other income represents realized gains and losses on the sale of Company investments and assets. A net gain in the amount of $1.1 million was recorded for the year ended December 31, 2000 for the sale of certain marketable securities.

Sabre's Interest in Partnership. Sabre's interest in the Partnership represents the amount of the loss of the Partnership attributable to Sabre's direct ownership interest in the Partnership. The amount of loss attributable to Sabre's interest is limited to the carrying amount of Sabre's basis in the Partnership as recorded on the date of the Merger, approximately $62.1

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million. Losses attributable to Sabre's interest in the Partnership exceeding $62.1 million are recognized in the net loss attributable to the Company's common stockholders. During 2000, the Company recognized net losses totaling approximately $1.2 million related to losses attributable to Sabre in excess of Sabre's basis in the Partnership. When the results of operations of the Partnership become profitable, net income attributable to the Company's stockholders shall be increased by the amount of losses attributable to Sabre in excess of Sabre's basis in the Partnership previously recognized by the Company. The Company's consolidated results of operations and financial position consists of the total of the Company's share of the Partnership's results and 100% of the Company's results.

Net loss. Net loss increased $26.3 million, or 127%, from $20.6 million for the year ended December 31, 1999 compared to $46.9 million for the year ended December 31, 2000, primarily due to the increase in operating expenses offset by the increase in gross profit, net of Sabre's interest in the results of operations of the Partnership.

1999 Compared to 1998

Revenues

Transaction Revenues. Transaction revenues increased from $18.4 million to $54.6 million for the year ended December 31, 1998 compared to the year ended December 31, 1999, an increase of approximately $36.2 million, or 197%. This increase was primarily attributable to increased sales through our Web site. Gross bookings increased from $284.6 million for the year ended December 31, 1998 to $808.4 million for the year ended December 31, 1999.

Advertising Revenues. Advertising revenues increased from $2.8 million (net of fees paid to DoubleClick of $820,000) to $8.6 million (net of fees of $2.0 million) for the year ended December 31, 1998 compared to the year ended

APP330

December 31, 1999, an increase of $5.8 million, or 205%. This increase was due primarily to an increase in net revenue from DoubleClick of $4.2 million for advertisements placed on our site, increasing advertising impressions and an increase in direct selling of advertising by us of $1.6 million.

Other Revenues. Other revenues increased from $47,000 to $1.0 million for the year ended December 31, 1998 compared to the year ended December 31, 1999, an increase of $982,000, or 2,089%, due to new licensing and maintenance agreements primarily with US Airways Airlines.

Cost of Revenues

Cost of revenues included costs of operating the customer service center, data processing charges and employee costs associated with operating our Internet infrastructure. Cost of revenues increased from $19.1 million to $40.3 million for the year ended December 31, 1998 compared to the year ended December 31, 1999, an increase of approximately $21.2 million, or 111%, primarily due to increases in data processing charges, costs associated with the customer service center and salaries and employee related costs. These increases were due primarily to the increase in transactions on our Web site. The increases were partially offset by a $1.7 million payment made by an affiliate of AMR Corporation ("AMR") to us in connection with the termination of the use of a customer service center operated by the AMR affiliate. Cost of revenues declined as a percentage of total revenue from 89.8% for the year ended December 31, 1998 to 62.7% for the year ended December 31, 1999 due primarily to increased efficiencies in the customer service center and the increase in advertising revenue in 1999.

Operating Expenses

Selling and Marketing. Selling and marketing expenses consisted of advertising costs to promote the Travelocity Division's Web site, costs relating to strategic distribution alliances with companies such as Yahoo!, Netscape and @Home, amortization of trademarks and salaries and benefits. Selling and marketing expenses increased from $10.6 million to $29.5 million for the year ended December 31, 1998 compared to the year ended December 31, 1999, an increase of approximately $18.9 million, or 178%. This increase was due to additional advertising spending of $12.4 million by us to gain market share, and increased costs of $5.7 million relating to the amortization of payments made to strategic distribution partners. The remaining increase of $0.8 million was due to an increase in salaries and other employee-related costs to support the additional direct selling efforts.

Technology and Development. Technology and development expenses consisted of salaries and related costs and charges from Sabre for development and maintenance of our Web site, including enhancements to and maintenance of the site. Technology and development expenses increased from $8.5 million to $9.6 million for the year ended December 31, 1998 compared to the year ended December 31, 1999, an increase of approximately $1.1 million, or 14%. This increase was primarily due to costs associated with enhancing and maintaining our Web site including enhancements such as Best Fare Finder.

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General and Administrative. General and administrative expenses consisted of management fees paid to Sabre for the provision of various services, including salaries and benefits for Sabre management devoted to the Travelocity Division, corporate facility services, legal services and accounting services. General and administrative expenses also included salaries and benefits of our management and administrative costs of the Travelocity Division. General and administrative expenses increased from $4.4 million to $5.4 million for the year ended December 31, 1998 compared to the year ended December 31, 1999, an increase of approximately $1.0 million, or 24%. This increase was due primarily to an increase in salaries and employee related costs and the management fee from Sabre. These costs increased as a result of increased administrative requirements to support our growth.

Net loss. Net loss decreased $649,000, or 3%, from $21.3 million for the year ended December 31, 1998 to $20.6 million for the year ended December 31, 1999, due primarily to the increase in gross profit partially offset by the increase in operating expenses.

Pro Forma Statement of Operations Data

The unaudited pro forma statement of operations data in the table below presents the effects of the Merger, the contribution agreements and other agreements entered into at the effective time of the Merger by the Partnership and Sabre as if these transactions occurred on January 1, 1999. These agreements are an access agreement, a technology services agreement, an intellectual property agreement, a facilities agreement, and an administrative services agreement. The unaudited pro forma information is presented for illustrative

APP331

purposes only and is not necessarily indicative of the operating results that would have occurred if such transactions had been consummated on January 1, 1999, nor is it necessarily indicative of future results of operations.

The unaudited pro forma statement of operations data should be read in conjunction with the Financial Statements and related notes thereto included elsewhere herein. Pro forma adjustments include the impact of intercompany agreements, the amortization of goodwill and other intangibles recorded as a result of the Merger as well as other adjustments associated with the Merger. See Note 10 to the Financial Statements. Amounts shown below are in thousands, except per share amounts.

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	Year Ended December 31,	
	2000	1999
	(in thousands, except per share amounts)	
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Pro Forma Combined Statements of Operations Data:		
Revenue:		
Transaction revenue	$ 146,664	$ 70,280
Advertising revenue	49,196	19,632
Other	5,482	1,029
Total revenues	$ 201,342	$ 90,941
Gross profit	$ 125,460	$ 50,211
Operating expenses	174,446	99,035
Amortization of intangible assets and goodwill	89,027	89,027
Operating loss	(138,013)	(137,851)
Other income	5,014	2,206
Net loss before Sabre's interest	(132,999)	(135,645)
Sabre's interest in partnership (1)	81,580	84,100
Net loss	$ (51,419)	$ (51,545)
Pro forma basic and diluted loss from continuing operations per share	$ (2.74)	$ (3.06)
Weighted average shares used in basic and diluted per share calculations (2)	18,748	16,850
Supplemental Financial Data		
Gross bookings (3)	2,460,400	1,190,400

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(1) Represents the allocation to Sabre of approximately 61% and 62% of the losses of the Partnership, which consolidates with the Company for financial reporting purposes, based upon Sabre's direct and indirect ownership interest in the partnership during 2000 and 1999, respectively. For pro forma purposes, losses attributable to Sabre's interest in the Partnership have not been limited to the carrying amount of Sabre's basis in the Partnership (See Note 2 to the Consolidated Financial statements).

(2) Includes the effects of shares of Class A Common Stock held by Sabre as if such shares had been converted into 3.0 million shares of common stock effective January 1, 1999. See Note 5 to the Financial Statements.

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(3) Represents the total purchase price of all travel services booked through Travelocity's Web sites. This presentation of gross bookings does not affect our operating results, and gross bookings are not included in revenues. Management believes that gross bookings provide a more consistent comparison of business activity between historical periods than do transaction fees because of changing commission rates over the periods. Gross bookings is not a financial measurement in accordance with GAAP and should not be considered in isolation or as a substitute for other information prepared in accordance with GAAP, and period-to-period comparisons of gross bookings are not necessarily meaningful as a measure of our revenues due to, among other things, changes in commission rates, and, as with operating results, should not be relied upon as an indication of future performance. See "Management's Discussion and Analysis of Financial Position."

Results of Operations

Pro Forma 2000 Compared to Pro Forma 1999

Revenues

Transaction Revenues. Pro forma transaction revenues increased from $70.3 million to $146.7 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $76.4 million, or 109%. This increase was primarily attributable to increased air and non-air revenues which increased 101% and 137%, respectively, compared to the same period last year. Pro forma gross bookings increased from $1.2 billion for the year ended December 31, 1999 to $2.5 billion for the year ended December 31, 2000.

Advertising Revenues. Pro forma advertising revenues increased from $19.6 million (net of fees paid to DoubleClick of $2.0 million) to $49.2 million (net of fees paid to DoubleClick of $884,000) for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $29.6 million, or 151%. This increase was due primarily to a significant increase in net revenue from our advertising revenue sharing agreement with AOL and increased advertising impressions from the direct sale of advertising by our direct sales force. Using a direct sales force instead of DoubleClick reduced fees paid for advertising services.

Other Revenues. Pro forma other revenues increased from $1.0 million to $5.5 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $4.5 million, or 433%. The increase was due primarily to the Company's receipt of service charges for the handling and express delivery of certain paper tickets and revenue related to certain warrants received from HRN in connection with an affiliation agreement.

Costs of Revenues

Pro forma costs of revenues increased from $40.7 million to $75.9 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $35.2 million, or 86%. This increase was due to increases in costs associated with customer service operations and salaries and employee related costs from the increase in transactions on our Web sites. Additionally, Preview Travel expanded its call center operations in August 1999 which further increased costs for 2000. Pro forma cost of revenues declined as a percentage of total revenue from 44.8% for the year ended December 31, 1999 to 37.7% for the year ended December 31, 2000.

Costs of revenues are expected to increase from current pro forma levels as the number of transactions processed on our Web sites increases. However, we anticipate that costs of revenues as a percentage of revenues will decrease due to efficiencies gained in infrastructure costs and the ticket fulfillment process due to economies of scale.

Operating Expenses

Selling and Marketing. Pro forma selling and marketing expenses increased from $68.2 million to $127.8 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $59.6 million, or 87%. This increase was due to increased costs relating to the amortization of payments made to strategic distribution partners and additional advertising spending. Part of the increase was also due to an increase in salaries and other employee related costs to support additional direct selling efforts. We will continue to invest a significant amount in advertising programs to build our brand. Additionally, guaranteed payments under the AOL Agreement will continue to result in significant distribution costs. We expect a major portion of these costs will be offset by revenue under our advertising revenue sharing agreement with AOL.

Technology and Development. Pro forma technology and development expenses increased from $12.1 million to $19.7 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $7.6 million, or 63%. This increase was due primarily to costs to enhance and maintain our transaction processing systems. These costs consist primarily of salaries and related costs, depreciation, repairs and maintenance and software licensing.

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General and Administrative. Pro forma general and administrative expenses increased from $14.2 million to $18.6 million for the year ended December 31, 1999 compared to the year ended December 31, 2000, an increase of $4.4 million, or 31%. This was due primarily to an increase in salaries and employee related costs that increased as a result of additional administrative requirements needed to support our growth and the Merger. Also, following the Merger, certain administrative costs were duplicative due to the integration of the administrative services of Preview Travel with the Company. We expect cost savings from the combined operations to lower general and administrative costs as a percentage of revenue.

APP333